

IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF CALIFORNIA

EPISTAR CORPORATION,

Plaintiff and Counterclaim  
Defendant,

v.

PHILIPS LUMILEDS LIGHTING COMPANY,  
LLC,

Defendant and  
Counterclaimant.

No. C 07-5194 CW

ORDER GRANTING IN  
PART, DENYING IN  
PART AND  
DEFERRING RULING  
IN PART ON  
DEFENDANT'S  
MOTION TO STAY

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Defendant and Counterclaimant Philips Lumileds Lighting Company has filed a motion to stay this action pending the final resolution of In the Matter of Certain High-Brightness Light Emitting Diodes and Products Containing Same, Inv. No. 337-TA-566, a related investigation before the International Trade Commission (ITC). The ITC's final determination is on appeal to the Federal Circuit. Plaintiff and Counterclaim Defendant Epistar Corporation opposes the motion. The motion was submitted on the papers.

1 Having considered all of the parties' papers, the Court grants in  
2 part, denies in part and defers ruling in part on Defendant's  
3 motion.

4 BACKGROUND

5 This case is part of a series of disputes between the parties  
6 relating to the alleged infringement by Epistar of a light emitting  
7 diode (LED) patent, United States Patent No. 5,008,718 ('718  
8 patent), held by Lumileds.

9 In September, 1999, UEC filed suit against Defendant Lumileds,  
10 Hewlett-Packard Co. and Agilent Technologies, seeking, among other  
11 things, a declaration that UEC's products did not infringe the '718  
12 patent. UEC and Lumileds settled that litigation in 2001 and  
13 entered into two separate agreements: a settlement agreement (2001  
14 UEC/Lumileds settlement agreement) and a patent license agreement  
15 (UEC/Lumileds patent license agreement).

16 In 2002, Lumileds filed a complaint against several of  
17 Epistar's customers in this Court, alleging infringement of the  
18 '718 patent (2002 suit). On January 6, 2003, Epistar filed suit in  
19 the Central District of California against Lumileds, seeking a  
20 declaration that its products did not infringe the '718 patent and  
21 that the '718 patent was invalid (2003 suit). The 2003 suit was  
22 transferred to this Court after Lumileds amended its complaint in  
23 the 2002 suit to name Epistar as a defendant and to include  
24 allegations that Epistar's products infringed the '718 patent. The  
25 cases were consolidated and were resolved when Epistar and Lumileds  
26 entered into a settlement agreement. The agreement included a  
27 covenant by Lumileds not to sue Epistar for infringement of the  
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1 '718 patent based on Epistar's Omnidirectional Mirror Adhesive  
2 (OMA) LED products and a license to Epistar to make, sell, use,  
3 offer to sell and import AlGaInP absorbing-substrate LEDs (2004  
4 Epistar/Lumileds settlement agreement).

5 In August, 2005, Epistar and UEC finalized a merger agreement  
6 through which Epistar would acquire all of UEC's assets and  
7 operations. The merger took effect on December 30, 2005 and UEC  
8 was dissolved.

9 On November 4, 2005, Lumileds filed a complaint with the ITC  
10 alleging, among other things, a violation of the Tariff Act of 1930  
11 based on the import of certain LED products that infringe the '718  
12 patent. Epistar was one of the respondents named in Lumileds'  
13 complaint. During the course of the investigation, Lumileds  
14 alleged that Epistar's OMA products infringed the '718 patent. The  
15 ITC entered a final determination that Epistar's OMA products  
16 infringe the '718 patent and entered an exclusion order precluding  
17 Epistar from importing its OMA LED products into the United States.  
18 Epistar appealed the ITC's final determination to the Federal  
19 Circuit.

20 At the same time that it filed its complaint with the ITC,  
21 Lumileds filed another complaint in this Court, alleging  
22 infringement of patents including the '718 patent (2005 suit).  
23 That case was stayed at Epistar's request pending resolution of the  
24 ITC proceedings.<sup>1</sup>

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25 <sup>1</sup>The 2005 suit was stayed pursuant to 28 U.S.C. § 1659, which  
26 provides,

27 In a civil action involving parties that are also  
28

1 On October 10, 2007, Epistar filed the instant complaint  
2 alleging that, after the entry of the ITC final determination,  
3 Lumileds sent false and misleading letters to Epistar's existing  
4 and potential customers about the scope of the ITC's findings.  
5 Those letters, Epistar argues, improperly suggest that the ITC  
6 determined that all of Epistar's products infringe all three of the  
7 patents it considered. Therefore, Epistar claims that the letters  
8 constitute (1) unfair competition under the Lanham Act,  
9 (2) intentional interference with Epistar's prospective economic  
10 advantage, and (3) unfair competition in violation of California  
11 Business and Professions Code § 17200. Epistar seeks to enjoin  
12 Lumileds from continuing the allegedly misleading communications.  
13 Epistar also asserts that Lumileds breached the covenant not to sue  
14 contained in the 2004 Epistar/Lumileds settlement agreement by  
15 filing the ITC complaint and the 2005 suit alleging infringement of  
16 the '718 patent. Finally, Epistar seeks a declaration that the  
17 2001 UEC/Lumileds settlement agreement became null and void when  
18 Epistar acquired UEC and that the Epistar/Lumileds settlement  
19 agreement controls.

20 DISCUSSION

21 It is well-established that "the power to stay proceedings is  
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23 parties to a proceeding before the United States  
24 International Trade Commission under section 337 of  
25 the Tariff Act of 1930, at the request of a party to  
26 the civil action that is also a respondent in the  
27 proceeding before the Commission, the district court  
28 shall stay, until the determination of the Commission  
becomes final, proceedings in the civil action with  
respect to any claim that involves the same issues  
involved in the proceeding before the Commission.

1 incidental to the power inherent in every court to control the  
2 disposition of the cases on its docket with economy of time, effort  
3 for itself, for counsel, and for litigants." Landis v. North Amer.  
4 Co., 299 U.S. 248, 254 (1936); see also Ethicon, Inc. v. Quigg, 849  
5 F.2d 1422, 1426-27 (Fed. Cir. 1988) ("Courts have inherent power to  
6 manage their dockets and stay proceedings.") As the Ninth Circuit  
7 instructs,

8 A trial court may, with propriety, find it is efficient  
9 for its own docket and the fairest course for the  
10 parties to enter a stay of an action before it, pending  
11 resolution of independent proceedings which bear upon  
12 the case. This rule applies whether the separate  
13 proceedings are judicial, administrative, or arbitral in  
14 character, and does not require that the issues in such  
15 proceedings are necessarily controlling of the action  
16 before the court.

17 Leyva v. Certified Grocers of Cal., Ltd., 593 F.2d 857, 863-64 (9th  
18 Cir. 1979).

19 "In determining whether to grant a stay, courts generally  
20 consider whether doing so would cause undue prejudice or present a  
21 clear tactical disadvantage to the non-moving party." ASCI Corp.  
22 v. STD Entm't USA, Inc., 844 F. Supp. 1378, 1380 (N.D. Cal. 1994).  
23 Courts may also consider the stage in litigation, whether  
24 substantial discovery has already taken place, and whether the  
25 matter has been set for trial. Id. The party seeking a stay "must  
26 make out a clear case of hardship or inequity in being required to  
27 go forward, if there is even a fair possibility that the stay for  
28 which he prays will work damage to some one else." Landis, 299  
U.S. at 255.

Lumileds seeks a stay of this action pending the final  
resolution of its claim before the ITC. Lumileds argues that the

1 stay's duration would be finite and that the instant claims could  
2 then be litigated along with the 2005 suit. Moreover, Lumileds  
3 argues that there is significant overlap between this case, the ITC  
4 claim and the 2005 suit.

5 I. Breach of contract claim based on the covenant not to sue  
6 Lumileds asserts that Epistar's likely defenses to the  
7 infringement claims in the 2005 suit are substantially intertwined  
8 with Epistar's current breach of contract claim. Lumileds predicts  
9 that Epistar will raise as a defense to the infringement claim, the  
10 covenant not to sue contained in the 2004 Epistar/Lumileds  
11 settlement agreement. This would be the converse of Epistar's  
12 present breach of contract claim. Epistar does not dispute that  
13 there is overlap between its breach of contract claim in this case  
14 and the patent issues in the ITC proceeding and the 2005 suit.  
15 Instead Epistar argues, "For efficient and orderly litigation  
16 however, the issue of whether the license defense is successful  
17 should preferably be decided first." Opposition at 6.

18 In addition to the overlap between the breach of contract  
19 claim and the infringement claim in the stayed 2005 suit and the  
20 potential for judicial economy in consolidating those claims,  
21 Lumileds argues that Epistar will not be prejudiced if this claim  
22 is stayed but Lumileds will be prejudiced if it is forced to  
23 litigate the same issues twice. First, Lumileds asserts that  
24 Epistar cannot argue that it will be prejudiced by a stay of this  
25 suit because it is Epistar that requested a stay of the 2005 suit.  
26 Epistar responds that it would be prejudiced because the ITC  
27 exclusion order covers products that it claims are included in the  
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1 covenant not to sue contained in the 2004 Epistar/Lumileds  
2 settlement agreement. Therefore, Epistar asserts that staying this  
3 claim will prolong the time for which it is wrongfully prevented  
4 from importing products it is permitted to import under the terms  
5 of the 2004 settlement agreement. Lumileds responds that Epistar  
6 originally raised the covenant not to sue as a defense in the ITC  
7 proceeding, but elected to abandon it on the fourth day of the  
8 hearing before the ITC and therefore has now waived it.

9 Epistar replies that the parties agreed that Epistar's defense  
10 that Lumileds breached the covenant not to sue "would be tried  
11 separately in district court." It is not clear whether the parties  
12 agreed to this, or, if not, whether Epistar has waived either its  
13 claim or defense based on the covenant not to sue. This could be  
14 resolved by motion, now or later. In any event, the scope of the  
15 covenant not to sue necessarily requires an analysis of which  
16 products are properly classified as OMA products that are subject  
17 to the covenant. Lumileds argues that this is a technical issue  
18 that is substantially related to the stayed patent suit.

19 The Court tentatively grants Lumileds' motion to stay with  
20 respect to the breach of contract claim. The parties shall come to  
21 the May 6, 2008 case management conference prepared to discuss the  
22 factual issues necessary for the Court to rule on this question.

23 II. Declaratory relief claim regarding the UEC/Lumileds patent  
24 license agreement

25 Lumileds also argues that Epistar's claim for a declaration  
26 that it is not bound by the UEC/Lumileds patent license agreement,  
27 entered into as part of the settlement of the 2001 suit between UEC  
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1 and Lumileds, should be stayed pending the resolution of the ITC  
2 claim because Epistar has addressed this issue in its defense of  
3 the ITC action. Epistar counters that it has only relied upon the  
4 UEC/Lumileds consent judgment and the 2001 UEC/Lumileds settlement  
5 agreement, not the UEC/Lumileds patent license agreement. Lumileds  
6 responds that one of Epistar's own briefs before the ITC recognizes  
7 that these three documents were part of the settlement of the 2001  
8 suit. Moreover, Lumileds points out that the UEC/Lumileds patent  
9 license agreement and the consent judgment are themselves exhibits  
10 to the 2001 UEC/Lumileds settlement agreement. Therefore, Lumileds  
11 asserts that the patent license agreement is necessarily at issue  
12 in the ITC proceeding and not properly before this Court.

13       The ITC found that Epistar is precluded from raising an  
14 invalidity defense to Lumileds' claims because Epistar is bound by  
15 the UEC/Lumileds consent judgment and the 2001 UEC/Lumileds  
16 settlement agreement. The ITC also found that under the terms of  
17 the UEC-Epistar merger agreement and Taiwanese law, under which the  
18 merger agreement was executed, Epistar has assumed all of UEC's  
19 rights and obligations and is therefore UEC's successor. Based on  
20 these findings, the ITC concluded that Epistar was bound by an  
21 agreement not to challenge the validity of the '718 patent  
22 contained in the UEC/Lumileds settlement agreement and dismissed  
23 Epistar's invalidity affirmative defense. This is one of the  
24 issues Epistar appealed to the Federal Circuit. In its brief to  
25 the Federal Circuit, the ITC states that "Epistar, now standing in  
26 UEC's shoes is barred from raising an invalidity defense to the  
27 assertion of infringement of the '718 patent against any product,



1 including 'future products.'" Wu Decl., Ex. F at 15.

2 None of Lumileds' exhibits demonstrate that the ITC considered  
3 the UEC/Lumileds patent license agreement. In fact, the ITC  
4 specifically states that it considered the UEC/Lumileds consent  
5 judgment and the 2001 UEC/Lumileds settlement agreement but does  
6 not mention the patent license agreement. Nonetheless, it is quite  
7 clear that the interpretation of the UEC-Epistar merger agreement  
8 is at issue in the ITC. The meaning of the merger is one of the  
9 key questions that will need to be determined before deciding  
10 whether Epistar is bound by the UEC/Lumileds patent license  
11 agreement. Therefore, the Court grants Lumileds' motion to stay  
12 with respect to this claim.

13 III. Claims for injunctive relief

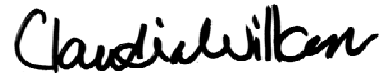
14 Finally, Epistar argues that the injunctive relief it seeks on  
15 its claims for unfair competition and intentional interference with  
16 prospective economic advantage weigh against granting the stay.  
17 These claims assert that Lumileds has improperly represented to  
18 Epistar's customers the scope of the ITC's exclusion order.  
19 Lumileds counters that the scope and propriety of the exclusion  
20 order remain in question and are presently on appeal to the Federal  
21 Circuit. However, the Federal Circuit's decision will not impact  
22 claims related to the manner in which Lumileds has represented and  
23 continues to represent the ITC's exclusion order. Epistar claims  
24 that it has and will continue to suffer harm based on the alleged  
25 misrepresentations. Therefore, the Court denies Defendant's motion  
26 to stay with respect to these claims.

CONCLUSION

For the foregoing reasons, the Court GRANTS in part, DENIES in part and DEFERS ruling in part on Defendant's motion to stay (Docket No. 30). As stated above, the parties shall come to the May 6, 2008 case management conference prepared to discuss the extent of the technical issues raised by the question of which products are properly classified as OMA products subject to the covenant not to sue.

IT IS SO ORDERED.

Dated: 4/2/08



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CLAUDIA WILKEN  
United States District Judge